

## Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 H-02 L-03 PRS-01

PA-01 SP-02 USIA-06 AID-05 EB-07 NSC-05 CIEP-01 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 IGA-02 /107 W

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R 030138Z DEC 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 3492

INFO AMEMBASSY WELLINGTON

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 18777

USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 3/3/77

TAGS: EAID, EFIN, WS

SUBJECT: PROPOSED ADB LOAN AND TECHNICAL ASSISTANCE GRANT FOR  
SECOND DEVELOPMENT BANK OF WESTERN SAMOA PROJECT

SUMMARY: ADB MANAGEMENT PROPOSES \$3.0 MILLION EQUIVALENT  
LOAN FROM SPECIAL FUNDS RESOURCES AND \$40,000 TECHNICAL  
ASSISTANCE (TA) GRANT TO GOVERNMENT OF WESTERN SAMOA TO  
MEET FOREX COST OF DEVELOPMENT PROJECTS FINANCED BY DEVELOP-  
MENT BANK OF WESTERN SAMOA (DBWS) AND TO EXTEND SERVICES  
OF ONE CONSULTANT IN ORDER TO FURTHER DEVELOP CAPABILITIES  
OF DBW STAFF. USADB RECOMMENDS FAVORABLE ACTION.

1. ADB DOC. R124-76 WITH ATTACHMENTS DESCRIBING PROPOSED  
LOAN AND GRANT POUCHED ADDRESSEES 29 NOVEMBER 1976. BOARD  
CONSIDERATION SCHEDULED FOR DEC. 16.

2. ADB MANAGEMENT PROPOSING \$3.0 MILLION LOAN FROM SPECIAL  
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FUNDS RESOURCES AND \$40,000 TA GRANT TO GOVERNMENT OF

WESTERN SAMOA (GWS). PROCEEDS OF LOAN WOULD AUGMENT FOREX RESOURCES OF DBWS TO PROVIDE FINANCING FOR SPECIFIC DEVELOPMENT PROJECTS. PROPOSED TERMS ARE 40-YEAR AMORTIZATION INCLUDING 10-YEAR GRACE PERIOD, 1 PERCENT INTEREST. GWS TO BE BORROWER, PROCEEDS WOULD FOR EXTENSION OF CONTRACT OF LOAN OPERATIONS EXPERT BEYOND PRESENT TERM TO FURTHER DEVELOP PROJECT APPRAISAL AND LOAN SUPERVISION CAPABILITY AND TO FURTHER TRAIN LOCAL STAFF OF DBWS.

3. AGRICULTURAL SECTOR OF WESTERN SAMOA'S ECONOMY WHICH ACCOUNTS FOR 70 PERCENT OF EMPLOYMENT AND 90 PERCENT OF EXPORTS, HAS BEEN DETERIORATING IN RECENT YEARS WITH DECLINING PRODUCTION OF MAIN COMMODITIES, COCONUT, COCOA, AND BANANAS. INDUSTRIAL SECTOR, THOUGH SMALL, AND LIMITED MOSTLY TO AREAS OF FOOD PROCESSING, CLOTHING AND FOOTWEAR, AND MANUFACTURE OF WOOD PRODUCTS, HAS SHOWN IMPRESSIVE GROWTH AS RESULT OF TAX AND OTHER INVESTMENT INCENTIVES INTRODUCED BY THE GOVERNMENT. BALANCE OF PAYMENTS CHARACTERIZED OF LATE BY HEAVY TRADE DEFICITS (EXPORTS 20 TO 25 PERCENT OF IMPORTS) FINANCED BY FOREIGN AID AND OTHER CAPITAL INFLOW. GOVERNMENT'S THIRD FIVE-YEAR DEVELOPMENT PLAN (1975-1979) PLACES MAIN EMPHASIS ON AGRICULTURAL DEVELOPMENT AND IDENTIFIES SPECIFIC PROJECTS IN VARIOUS SECTORS OF ECONOMY. FOREIGN ASSISTANCE, IN BOTH CAPITAL AND EXPERTISE, IS RELIED HEAVILY FOR ACHIEVEMENT OF PLAN GOALS, WITH DBWS RELIED ON FOR IMPORTANT SHARE OF PROJECT FINANCING.

4. DBWS WAS ESTABLISHED ON OCTOBER 1, 1974. HAVING EVOLVED FROM DEVELOPMENT DEPARTMENT OF BANK OF WESTERN SAMOA WITH AID OF A \$217,000 TA GRANT APPROVED BY BANK IN JANUARY 1973. IN MARCH 1975, BANK APPROVED \$1 MILLION LOAN FROM SPECIAL FUNDS RESOURCES TO GWS TO BE RELENT TO DBWS TO HELP MEET FOREX REQUIREMENTS OF AGRICULTURAL AND INDUSTRIAL ENTERPRISES, AND SIMULTANEOUSLY EXTENDED \$90,000 TA GRANT TO EXTEND SERVICES OF CONSULTANTS ENGAGED UNDER ORIGINAL TA. AS OF SEPTEMBER 30, 1976, \$0.72 MILLION OF BANK'S FIRST LOAN HAD BEEN CREDITED TO LOAN ACCOUNT; REMAINING \$0.28 LIMITED OFFICIAL USE

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MILLION TO BE CREDITED BY EARLY 1977. UTILIZATION OF CREDIT LINE DEEMED ON THE WHOLE SATISFACTORY. IMPACT OF TA HAS BEEN REDUCED SOMEWHAT BY RESIGNATIONS OF THREE SENIOR STAFF, BUT ON THE WHOLE HAS BEEN CONSIDERED BENEFICIAL TO WESTERN SAMOA. DBWS DEEMED A WELL-RUN DEVELOPMENT INSTITUTION, ALTHOUGH NEEDING IMPROVEMENT IN AREAS OF LOAN APPRAISAL AND SUPERVISION.

5. RATIO OF OVERDUE TO TOTAL DBWS LOANS WAS 24 PERCENT AS OF JUNE 30, 1976. THIS RELATIVELY UNSATISFACTORY RECOVERY POSITION EXPLAINED MAINLY BY LARGE PROPORTION OF SMALL-SCALE AGRICULTURAL LOANS WITH MANY BORROWERS NEW TO COUNTRY'S MONETIZED SECTOR. DBWS APPEARS TO BE MAKING PROGRESS IN THIS AREA AND WILL PREPARE DETAILED PLAN FOR REDUCING OVERDUE LOANS AS CONDITION OF LOAN EFFECTIVENESS. NEW LOANS ARE ADEQUATELY SECURED, AND DBWS ALLOCATES AT LEAST 3 PERCENT OF TOTAL LOAN APPROVALS FOR BAD AND DOUBTFUL DEBTS. IN YEARS WHEN OPERATING PROFIT IS INADEQUATE TO COVER PROVISION FOR BAD DEBTS, AS IN 1974/75 AND 1975/76, GOVERNMENT HAS MADE/WILL MAKE UP THE DIFFERENCE VIA GRANT.

6. GWS WILL BEAR FOREX RISK IN RELENDING PROPOSED BANK LOAN, BUT MAY PASS ON RISK TO SUB-BORROWERS WHERE SUBLOANS EXCEED \$200,000 OR WHERE THERE IS SUBSTANTIAL FOREIGN PARTICIPATION IN ENTERPRISE. DBWS WILL BE ALLOWED TO CHARGE AT LEAST 9 PERCENT INTEREST FOR INDUSTRIAL LOANS BUT WITH MINIMUM AVERAGE OF 10.25 PERCENT AND AT LEAST 8 PERCENT FOR AGRICULTURAL LOANS WITH 9 PERCENT MINIMUM AVERAGE.

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R 030138Z DEC 76

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TO SECSTATE WASHDC 3493

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FOR NAC AGENCIES

7. PROPOSED BANK LOAN TO BE USED TO COVER MOST OF 1977-79 FOREX REQUIREMENTS OF ABOUT \$3.58 MILLION. PROCEEDS TO BE USED FOR SPECIFIC "DEVELOPMENT PROJECTS" WHICH, ACCORDING TO EXPERIENCE UNDER FIRST LOAN, WILL BE PREDOMINANTLY FOR INDUSTRIAL SECTOR UNDERTAKINGS. LOCAL CURRENCY REQUIREMENTS OF DBWS FOR 1977-79 PERIOD TO BE FINANCED BY INCREASE IN PAID-IN CAPITAL, GOVERNMENT BORROWINGS, LOAN COLLECTIONS, AND A EUROPEAN DEVELOPMENT FUND LOAN. GOVERNMENT HAS AGREED TO COVER ANY DEFICIT OR LOSS FROM DBWS OPERATIONS.

8. GWS TO CHARGE DBWS 6 PERCENT PER ANNUM INTEREST ON BANK LOAN RELENDING, PROVIDING DBWS AVERAGE INTEREST SPREAD OF 4.25 PERCENT ON INDUSTRIAL LOANS AND 3 PERCENT ON AGRICULTURAL LOANS. REPAYMENT PERIOD OF 15 YEARS (INCLUDING 8-YEAR GRACE PERIOD) WILL ALLOW RECYCLING OF DBWS SUB- LOANS (WHICH UNDER FIRST BANK LOAN HAVE AVERAGED 6 YEARS REPAYMENT PERIOD).

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9. PRIOR APPROVAL OF BANK TO BE REQUIRED OF FIRST FIVE LOAN APPLICATIONS ABOVE \$40,000, THEREAFTER ALL APPLICATIONS ABOVE \$40,000. ON OFF-THE-SHELF PURCHASE OF MACHINERY/EQUIPMENT UP TO \$30,000, AND TO REIMBURSE 60 PERCENT OF CONSTRUCTION CONTRACTS UP TO SAME AMOUNT. PROCUREMENT BY SUB-BORROWERS TO BE ON BASIS OF "REASONABLE COMPETITION".

10. TERMS OF SENIOR DEVELOPMENT BANK EXPERT AND LOAN OPERATIONS EXPERT EXPIRE ON 13 DECEMBER AND 30 NOVEMBER 1976, RESPECTIVELY. PROPOSED TA WILL PERMIT EXTENSION OF LATTER'S TERM BY SIX MONTHS, EXTENDABLE BY A FURTHER SIX MONTHS. CONSULTANT WILL BE RESPONSIBLE FOR APPRAISAL AND FOLLOW-UP OF LOAN OPERATIONS OF DBWS AND TRAINING OF LOCAL STAFF. BANK PROPOSES THAT TA ASSISTANCE BE PROVIDED AS GRANT, RATHER THAN INCORPORATED IN LOAN, IN VIEW OF WESTERN SAMOA'S "LEAST DEVELOPED" STATUS AND PIONEERING NATURE OF DBWS ACTIVITIES. DBWS WILL MEET LOCAL COSTS INVOLVED, ESTIMATED AT \$5,000 EQUIVALENT.

11. DBWS IS EXPECTED TO PLAY AN IMPORTANT ROLE IN DEVELOPMENT OF WESTERN SAMOA ECONOMY. PROJECTS ASSISTED BY BANK WILL REATE EMPLOYMENT FOR ESTIMATED 262 PERSONS, PROVIDE FOREX SAVINGS OF \$265,000, AND TOTAL PRODUCTION VALUED AT \$1,0 MILLION. UTILIZATION OF FIRST BANK LOAN

HAS BEEN FASTER THAN EXPECTED. PROFITABILITY OF DBWS  
HAS BEEN MARGINAL, BUT GOVERNMENT HAS FULLY SUPPORTED  
IT FINANCIALLY, AND NEED FOR SUPPORT WILL DECLINE AS  
OPERATIONS EXPAND. MISSION CONSIDERS DBWS TO BE SUITABLE  
FINANCE INSTITUTION FOR SECOND LOAN AND PROPOSED TA GRANT.  
USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC  
ACTION.

12. REQUEST WELLINGTON'S COMMENTS FOR NAC AGENCIES, INFO  
USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972.  
SULLIVAN

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## Message Attributes

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Margaret P. Grafeld  
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